

Senate Bill No. 20

CHAPTER 6

An act to amend Section 22954 of, and to add and repeal Section 22954.1 of, the Education Code, relating to state teachers' retirement, making an appropriation therefor, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor May 5, 2003. Filed with
Secretary of State May 5, 2003.]

LEGISLATIVE COUNSEL'S DIGEST

SB 20, Committee on Budget and Fiscal Review. Teachers' Retirement System: Supplemental Benefit Maintenance Account.

Under the Teachers' Retirement Law, a continuous appropriation equal to 2.5% of total creditable compensation, as specified, is made from the General Fund for transfer to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund to fund purchase power protection payments to retired members of the Defined Benefit Program of the State Teachers' Retirement System.

This bill would decrease that appropriation by \$500,000,000 for the 2003–04 fiscal year. The bill would require the Teachers' Retirement Board, beginning in 2006 and every 4 years thereafter, to report to the Legislature and the Director of Finance regarding the ability of the retirement system to pay purchase power protection payments in each fiscal year until 2036 and would appropriate funds, as determined by the actuary and certified by the Director of Finance, as necessary to enable the system to make those payments, as specified, until June 30, 2036. The aggregate amount of funds to be appropriated for these purposes would be limited to \$500,000,000, adjusted as specified. The bill would make related legislative findings.

The bill would declare that it is to take effect immediately as an urgency statute.

Appropriation: yes.

The people of the State of California do enact as follows:

SECTION 1. (a) The Legislature finds and declares all of the following:

(a) When Chapter 840 of the Statutes of 2001 was enacted, the Legislature intended to provide funding to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund to mitigate the



possibility that the purchasing power of retired members of the Defined Benefit Program of the State Teachers' Retirement System would be eroded by inflation to less than 80 percent of each member's purchasing power at the time of retirement.

(b) The Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund currently has sufficient funds to provide, through the year 2035, the purchasing power protection contemplated in Chapter 840 of the Statutes of 2001.

(c) The actuary retained by Teachers' Retirement Board provides the board with periodic actuarial valuations of the funds and accounts of the State Teachers' Retirement System, which provide the Teachers' Retirement Board, the Governor, and the Legislature sufficient time to address erosions in the funding status of the system before those erosions have any negative impacts on the intended benefits of the system's retired members.

(d) It is in the best interest of the people of the State of California, in this time of fiscal crisis, to recognize the state's responsibilities as a sovereign state to revise prior commitments, if that revision does not impair the intent and effect of any contractual obligation.

SEC. 2. Section 22954 of the Education Code, as added by Chapter 1021 of the Statutes of 2000, is amended to read:

22954. (a) Notwithstanding Section 13340 of the Government Code, commencing July 1, 2003, a continuous appropriation is hereby annually made from the General Fund to the Controller, pursuant to this section, for transfer to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund.

(b) The total amount of the appropriation for each year shall be equal to 2.5 percent of the total of the creditable compensation of the fiscal year ending in the immediately preceding calendar year upon which members' contributions are based for purposes of funding the supplemental payments authorized by Section 24415. However, for the 2003–04 fiscal year only, that appropriation is reduced by five hundred million dollars (\$500,000,000).

(c) The board may deduct from the annual appropriation made pursuant to this section an amount necessary for the administrative expenses of Section 24415.

(d) It is the intent of the Legislature in enacting this section to establish the supplemental payments pursuant to Section 24415 as vested benefits pursuant to a contractually enforceable promise to make annual contributions from the General Fund to the Supplemental Benefit Maintenance Account in the Teachers' Retirement Fund in order to provide a continuous annual source of revenue for the purposes of making the supplemental payments under Section 24415.



(e) This section shall become operative on July 1, 2003, if the revenue limit cost-of-living adjustment computed by the Superintendent of Public Instruction for the 2001–02 fiscal year is equal to or greater than 3.5 percent. Otherwise this section shall become operative on July 1, 2004.

SEC. 3. Section 22954.1 is added to the Education Code, to read:

22954.1. (a) Beginning in 2006, and every four years thereafter, the board shall, based on an actuarial valuation approved by the board, report to the Legislature and the Director of Finance regarding the anticipated ability of the system to provide the purchasing power protection contemplated by Chapter 840 of the Statutes of 2001 during each year until June 30, 2036. The actuarial valuation shall take into consideration all expected contributions to the Supplemental Benefit Maintenance Account, expected expenditures from the account, and expected investment returns.

(b) On July 30 of the calendar year following any calendar year in which the board, as a result of the quadrennial valuation required by subdivision (a), reports that the funds in the Supplemental Benefit Maintenance Account will be insufficient in any fiscal year before July 1, 2036, to provide the purchasing power protection contemplated by Chapter 840 of the Statutes of 2001, there is hereby appropriated from the General Fund to the Controller the amount necessary to provide that purchasing power protection, as determined by the actuary, taking into consideration all expected contributions to the Supplemental Benefit Maintenance Account, expected expenditures from the account, and expected investment returns, and subject to the limitation in subdivision (c). The amount appropriated pursuant to this section shall be transferred by the Controller to the Supplemental Benefit Maintenance Account upon certification of the amount by the Director of Finance.

(c) The aggregate amount of funds appropriated pursuant to subdivision (b) is limited to an amount equal to five hundred million dollars (\$500,000,000) adjusted by the actual rate of return on funds in the Supplemental Benefit Maintenance Account from July 1, 2003, after taking into account any amount previously appropriated pursuant to subdivision (b). In calculating this limit, the sum of five hundred million dollars (\$500,000,000) shall be treated as an initial principal amount, and this amount shall be adjusted at the end of each fiscal year based on the actual investment return of the Supplemental Benefit Maintenance Account during the preceding fiscal year and shall be reduced by any amounts appropriated pursuant to subdivision (b) as of the date of the transfer.

(d) This section shall become inoperative on July 1, 2036, and, as of January 1, 2037, is repealed, unless a later enacted statute that is enacted

before January 1, 2037, deletes or extends the dates on which it becomes inoperative and is repealed.

SEC. 4. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to address the fiscal crisis facing the state in the 2003–04 fiscal year, it is necessary that this act take effect immediately.

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